

Message Text

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C O N F I D E N T I A L MADRID 1732

E.O. 11652: GDS
TAGS: ECON, EFIN, SP
SUBJECT: GOVERNOR OF BANK OF SPAIN'S VIEWS ON THE SPANISH
ECONOMIC SITUATION

1. SUMMARY. GOVERNOR OF THE BANK OF SPAIN JOSE MARIA LOPEZ DE LETONE COMMENTED TO THE CHARGE OF MARCH 7 THAT THE GOVERNMENT WAS OBVIOUSLY IN AN ECONOMIC HOLDING ACTION UNTIL ELECTIONS AND THAT HE HOPED (ALTHOUGH HE WAS NOT CERTAIN) IT WOULD BE PREPARED TO ADDRESS SPAIN'S FUNDAMENTAL INFLATION AND BALANCE OF PAYMENTS PROBLEMS SHORTLY THEREAFTER BECAUSE THESE PROBLEMS COULD NOT GO UNATTENDED INDEFINITELY. HE ALSO SAID THE BANK OF SPAIN FAVORS THE OPENING OF SPAIN TO MORE FOREIGN BANK BRANCHES TO IMPROVE BANKING EFFICIENCY, AND HE EXPECTS SOME LIMITED MOVEMENT IN THIS SENSE AFTER ELECTIONS AND BEFORE THE END OF 1977. END SUMMARY.

2. LOPEZ DE LETONA SAID THAT FROM A STRICLY TECHNICAL POINT OF VIEW, THE ECONOMIC MEASURES THAT SHOULD BE TAKEN NOW -- IN FACT, THAT SHOULD HAVE BEEN TAKEN SOME TIME AGO -- WERE OBVIOUS. MOREOVER, ONE COULD ARGUE THAT THE GOVERNMENT WAS IN A BETTER POSITION AFTER THE REFERENDUM THAN IT EVER WOULD BE TO TAKE UNPOPULAR MEASURES. ELECTIONS MIGHT WELL YIELD A FRAGMENTED LEGISLATURE THAT WOULD MAKE A COHERENT ECONOMIC PROGRAM MORE DIFFICULT THEN THAN NOW. BUT
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THERE WERE ARGUMENTS ON THE OTHER SIDE ALSO, AND ONLY THOSE AT THE TOP OF THE GOVERNMENT HAD ALL THE FACTS AT ANY GIVEN TIME ON WHICH TO BASE SUCH DECISIONS. THE GOVERNMENT HAD DECIDED TO POSTPONE ACTION AND HAD ASKED ITS FUNCTIONARIES NOT TO LET THINGS GET OUT OF HAND MEANWHILE. THE BANK OF SPAIN WOULD SUPPORT THAT POLICY (ALTHOUGH HIS TONE INDICATES HE WAS NOT TOO HAPPY WITH IT).

3. LOPEZ DE LETONA CLEARLY INDICATED HIS HOPE THAT AFTER ELECTIONS A GOVERNMENT WILL BE FORMED THAT INCLUDES BROAD ENOUGH POLITICAL REPRESENTATION TO SUPPORT A COHERENT ECONOMIC PROGRAM AIMED AT DEALING WITH THE INFLATION AND BALANCE OF PAYMENTS PROBLEMS.

4. WHEN ASKED WHETHER THERE WAS DANGER THAT THE SITUATION MIGHT DETERIORATE SO RAPIDLY THAT ACTION MIGHT BE FORCED BEFORE ELECTIONS, HE SAID HE DID NOT THINK SO. THE FIRST THREE MONTHS OF THE YEAR WERE NORMALLY SEASONALLY BAD. BUT AFTER THAT TOURIST INCOME BEGAN TO PICK UP, EASING THE BALANCE OF PAYMENTS PROBLEM. EARLY TOURIST BOOKINGS WERE HEAVIER THIS YEAR THAN LAST. MOREOVER, THE HEAVIER THAN USUAL RAINS WOULD MEAN A GOOD AGRICULTURAL YEAR AND GREATER AVAILABILITY OF HYDROELECTRIC POWER AS A SUBSTITUTE FOR POWER PRODUCED FROM IMPORTED PETROLEUM. THUS HE THOUGHT, OBJECTIVELY, IT WAS POSSIBLE, ALTHOUGH NOT IDEAL, TO WAIT UNTIL AFTER ELECTIONS FOR ECONOMIC ADJUSTMENTS. ONE COULD NOT POSTPONE INDEFINITELY, HOWEVER.

5. ASKED ABOUT LABOR, HE SAID THAT THIS WAS AN ESPECIALLY DIFFICULT AREA. THE COMISIONES OBRERAS WERE THE STRONGEST LABOR ELEMENT NOW. HE DID NOT HAVE MUCH FAITH IN THE IDEA THAT THE TRADITIONAL SYNDICAL LEADERSHIP COULD EVER BE EFFECTIVE UNDER NEW STRUCTURAL ARRANGEMENTS. NEW LEADERSHIP WOULD HAVE TO APPEAR. THE UGT, THE USO AND OTHER LABOR GROUPS DID NOT HAVE GREAT STRENGTH. THUS IT WAS, AND WOULD BE FOR SOME TIME, DIFFICULT TO IDENTIFY LEGITIMATE LABOR

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REPRESENTATION WITH WHICH TO DIALOGUE ON AN ECONOMIC PROGRAM.

6. WITH REGARD TO FOREIGN BANK BRANCHES, LOPEZ DE LETONA SAID SPANISH BANKING NEEDED THE COMPETITION THAT FOREIGN BANKS COULD PROVIDE. ONE COULD NOT LET EVERYONE IN AT ONCE. BUT THE BANK OF SPAIN FAVORED OPENING THE DOORS GRADUALLY. NOTHING WOULD BE DONE BEFORE ELECTIONS, BUT HE EXPECTED FIRST MOVES BEFORE THE END OF THE YEAR.

7. COMMENT: LOPEZ DE LETONA HAS BEEN CRITICIZED AS HAVING TOO MUCH OF AN INDUSTRIALIST'S BACKGROUND TO BE A GOOD CENTRAL BANKER. MOREOVER, MONEY SUPPLY POLICY HAS BEEN MORE PERMISSIVE SINCE HE HAS BEEN IN OFFICE THAN BEFORE. SPECIFICS WERE NOT DEALT WITH IN THIS CONVERSATION, BUT HIS TONE WAS THAT OF A TRUE CENTRAL BANKER WHO LAMENTED THAT POLITICS WERE GETTING IN THE WAY OF RUNNING THE ECONOMY IN A TECHNICALLY SOUND MANNER. EATON

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